PLUMAS BANCORP
Form 10-Q
May 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2016

TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO ___________

COMMISSION FILE NUMBER: 000-49883

PLUMAS BANCORP

(Exact Name of Registrant as Specified in Its Charter)

California	**75-2987096**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

35 S. Lindan Avenue, Quincy, California	**95971**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code **(530) 283-7305**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 2, 2016.
4,855,875 shares

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLUMAS BANCORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 55,795	$ 68,195
Investment securities available for sale	99,633	96,704
Loans, less allowance for loan losses of $6,198 at March 31, 2016 and $6,078 at December 31, 2015	404,913	396,833
Real estate acquired through foreclosure	1,760	1,756
Premises and equipment, net	12,249	12,234
Bank owned life insurance	12,273	12,187
Accrued interest receivable and other assets	8,699	11,377
Total assets	$ 595,322	$ 599,286
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	$ 201,579	$ 209,044
Interest bearing	323,627	318,232
Total deposits	525,206	527,276
Repurchase agreements	4,175	7,671
Note payable	4,750	4,875
Accrued interest payable and other liabilities	5,900	6,658
Junior subordinated deferrable interest debentures	10,310	10,310
Total liabilities	550,341	556,790
Commitments and contingencies (Note 5)		
Shareholders' equity:		
Common stock, no par value; 22,500,000 shares authorized; issued and outstanding – 4,852,875 shares at March 31, 2016 and 4,835,432 at December 31, 2015	6,551	6,475

Retained earnings	37,636	36,063
Accumulated other comprehensive income (loss), net	794	(42)
Total shareholders’ equity	44,981	42,496
Total liabilities and shareholders’ equity	$595,322	$599,286

See notes to unaudited condensed consolidated financial statements.

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PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)

	For the Three Months Ended March 31,	
	2016	**2015**
Interest Income:		
Interest and fees on loans	$5,455	$4,943
Interest on investment securities	472	398
Other	73	35
Total interest income	6,000	5,376
Interest Expense:		
Interest on deposits	132	124
Interest on note payable	46	11
Interest on subordinated debt	-	188
Interest on junior subordinated deferrable interest debentures	83	74
Other	1	2
Total interest expense	262	399
Net interest income before provision for loan losses	5,738	4,977
Provision for Loan Losses	200	300
Net interest income after provision for loan losses	5,538	4,677
Non-Interest Income:		
Service charges	931	938
Gain on sale of loans	333	657
(Loss) gain on sale of investments	(32)	30
Other	421	420
Total non-interest income	1,653	2,045
Non-Interest Expenses:		
Salaries and employee benefits	2,608	2,718
Occupancy and equipment	707	700
Other	1,319	1,288
Total non-interest expenses	4,634	4,706
Income before provision for income taxes	2,557	2,016
Provision for Income Taxes	984	801
Net income	$1,573	$1,215
Basic earnings per common share	$0.32	$0.25
Diluted earnings per common share	$0.31	$0.24

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	For the Three Months Ended March 31,	
	2016	**2015**
Net income	$1,573	$1,215
Other comprehensive income:		
Change in net unrealized gain	1,391	653
Reclassification adjustments for net losses (gains) included in net income	32	(30)
Net unrealized holding gain	1,423	623
Related tax effect:		
Change in net unrealized gain	(574)	(269)
Reclassification of net gains included in net income	(13)	12
Income tax effect	(587)	(257)
Other comprehensive income	836	366
Total comprehensive income	$2,409	$1,581

See notes to unaudited condensed consolidated financial statements.

PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the Three Months Ended March 31,	
	2016	**2015**
Cash Flows from Operating Activities:		
Net income	$1,573	$1,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	200	300
Change in deferred loan origination costs/fees, net	(122)	(148)
Depreciation and amortization	267	327
Stock-based compensation expense	25	29
Loss (gain) on sale of Investments	32	(30)
Amortization of investment security premiums	150	127
Gain on sale of OREO and other vehicles	(3)	(17)
Gain on sale of loans held for sale	(333)	(657)
Loans originated for sale	(8,662)	(9,134)
Proceeds from loan sales	6,336	9,485
Provision from change in OREO valuation	9	(129)
Earnings on bank-owned life insurance	(86)	(85)
Decrease in accrued interest receivable and other assets	2,151	134
(Decrease) increase in accrued interest payable and other liabilities	(758)	245
Net cash provided by operating activities	779	1,662
Cash Flows from Investing Activities:		
Proceeds from principal repayments from available-for-sale government-sponsored mortgage-backed securities	2,721	2,690
Purchases of available-for-sale securities	(18,998)	(8,584)
Proceeds from sale of available-for-sale securities	14,589	6,669
Net increase in loans	(5,700)	(12,750)
Proceeds from sale of OREO	-	301
Proceeds from sale of other vehicles	107	73
Purchase of premises and equipment	(269)	(104)
Net cash used in investing activities	(7,550)	(11,705)

Continued on next page.

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PLUMAS BANCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

(Continued)

	For the Three Months Ended March 31, 2016	2015
Cash Flows from Financing Activities:		
Net (decrease) increase in demand, interest bearing and savings deposits	$(1,214)	$17,028
Net decrease in time deposits	(856)	(1,255)
Principal payment on note payable	(125)	-
Net decrease in securities sold under agreements to repurchase	(3,496)	(2,683)
Proceeds from exercise of stock options	62	12
Net cash (used in) provided by financing activities	(5,629)	13,102
(Decrease) increase in cash and cash equivalents	(12,400)	3,059
Cash and Cash Equivalents at Beginning of Year	68,195	45,574
Cash and Cash Equivalents at End of Period	$55,795	$48,633
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest expense	$260	$355
Income taxes	$50	$155
Non-Cash Investing Activities:		
Real estate and vehicles acquired through foreclosure	$102	$309

See notes to unaudited condensed consolidated financial statements.

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PLUMAS BANCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. GENERAL

During 2002, Plumas Bancorp (the "Company") was incorporated as a bank holding company for the purpose of acquiring Plumas Bank (the "Bank") in a one bank holding company reorganization. This corporate structure gives the Company and the Bank greater flexibility in terms of operation, expansion and diversification. The Company formed Plumas Statutory Trust I ("Trust I") for the sole purpose of issuing trust preferred securities on September 26, 2002. The Company formed Plumas Statutory Trust II ("Trust II") for the sole purpose of issuing trust preferred securities on September 28, 2005.

The Bank operates eleven branches in California, including branches in Alturas, Chester, Fall River Mills, Greenville, Kings Beach, Portola, Quincy, Redding, Susanville, Tahoe City, and Truckee. In December, 2015 the Bank opened a Branch in Reno, Nevada; it's first Branch outside of California. The Bank's administrative headquarters is in Quincy, California. In addition, the Bank operates lending offices specializing in government-guaranteed lending in Auburn, California, Scottsdale, Arizona and Seattle, Washington and a commercial/agricultural lending office in Chico, California. The Bank's primary source of revenue is generated from providing loans to customers who are predominately small and middle market businesses and individuals residing in the surrounding areas.

2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements include the accounts of the Company and the accounts of its wholly-owned subsidiary, Plumas Bank. Plumas Statutory Trust I and Plumas Statutory Trust II are not consolidated into the Company's consolidated financial statements and, accordingly, are accounted for under the equity method. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position at March 31, 2016 and the results of its operations and its cash flows for the three-month periods ended March 31, 2016 and 2015. Our condensed consolidated balance sheet at December 31, 2015 is derived from audited financial statements. Certain reclassifications have been made to prior period's balances to conform to classifications used in 2016.

The unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting on Form 10-Q. Accordingly, certain disclosures normally presented in the notes to the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted. The Company believes that the disclosures are adequate to make the information not misleading. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2015 Annual Report to Shareholders on Form 10-K. The results of operations for the three-month period ended March 31, 2016 may not necessarily be indicative of future operating results. In preparing such financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the periods reported. Actual results could differ significantly from those estimates.

Management has determined that because all of the commercial banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment. No single customer accounts for more than 10% of the revenues of the Company or the Bank.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of investment securities at March 31, 2016 and December 31, 2015 consisted of the following, in thousands:

Available-for-Sale	March 31, 2016			
	Gross Amortized Cost	Gross Unrealized Gains	Estimated Unrealized Losses	Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$2,994	$ 4	$ -	$2,998
U.S. Government-sponsored agencies collateralized by mortgage obligations- residential	71,640	569	(46)	72,163
Obligations of states and political subdivisions	23,648	833	(9)	24,472
	$98,282	$ 1,406	$ (55)	$99,633

Net unrealized gain on available-for-sale investment securities totaling $1,351,000 were recorded, net of $557,000 in tax expense, as accumulated other comprehensive income within shareholders' equity at March 31, 2016. During the three months ended March 31, 2016 the Company sold fourteen available-for-sale investment securities for total proceeds of $14,589,000 recording a $32,000 loss on sale. The Company realized a gain on sale from eight of these securities totaling $48,000 and a loss on sale on six securities of $80,000.

Available-for-Sale	December 31, 2015			
	Gross Amortized Cost	Gross Unrealized Gains	Estimated Unrealized Losses	Fair Value
Debt securities:				
U.S. Government-sponsored agencies	$1,994	$ -	$ (17)	$1,977
U.S. Government-sponsored agencies collateralized by mortgage obligations- residential	72,965	56	(651)	72,370
Obligations of states and political subdivisions	21,817	548	(8)	22,357
	$96,776	$ 604	$ (676)	$96,704

Net unrealized loss on available-for-sale investment securities totaling $72,000 were recorded, net of $30,000 in tax benefits, as accumulated other comprehensive income within shareholders' equity at December 31, 2015. During the year ended December 31, 2015 the Company sold fifteen available-for-sale investment securities for total proceeds of $12,260,000 recording a $21,000 net gain on sale. The Company realized a gain on sale from eight of these securities totaling $62,000 and a loss on sale on seven of these securities of $41,000.

There were no transfers of available-for-sale investment securities during the three months ended March 31, 2016 and twelve months ended December 31, 2015. There were no securities classified as held-to-maturity at March 31, 2016 or December 31, 2015.

Investment securities with unrealized losses at March 31, 2016 and December 31, 2015 are summarized and classified according to the duration of the loss period as follows, in thousands:

March 31, 2016	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government- sponsored agencies	$-	$ -	$-	$ -	$-	$ -
U.S. Government agencies collateralized by mortgage obligations-residential	2,185	5	3,880	$ 41	6,065	46
Obligations of states and political subdivisions	1,308	9	-	-	1,308	9
	$3,493	$ 14	$3,880	$ 41	$7,373	$ 55

December 31, 2015	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government- sponsored agencies	$1,977	$ 17	$-	$ -	$1,977	$ 17
U.S. Government agencies collateralized by mortgage obligations-residential	45,398	327	11,880	324	57,278	651
Obligations of states and political subdivisions	1,037	7	160	1	1,197	8
	$48,412	$ 351	$12,040	$ 325	$60,452	$ 676

At March 31, 2016, the Company held 151 securities of which 13 were in a loss position. Of the securities in a loss position, 7 were in a loss position for less than twelve months. Of the 151 securities 3 are U.S. Government-sponsored agencies 58 are U.S. Government-sponsored agencies collateralized by residential mortgage obligations and 90 were obligations of states and political subdivisions. The unrealized losses relate principally to market rate conditions. All of the securities continue to pay as scheduled. When analyzing an issuer's financial condition, management considers the length of time and extent to which the market value has been less than cost; the historical and implied volatility of the security; the financial condition of the issuer of the security; and the Company's intent and ability to hold the security to recovery. As of March 31, 2016, management does not have the intent to sell these securities nor does it believe it is more likely than not that it will be required to sell these securities before the recovery of its amortized cost basis. Based on the Company's evaluation of the above and other relevant factors, the Company does not believe the securities that are in an unrealized loss position as of March 31, 2016 are other than temporarily impaired.

The amortized cost and estimated fair value of investment securities at March 31, 2016 by contractual maturity are shown below, in thousands.

	Amortized Cost	Estimated Fair Value
Within one year	$ -	$ -
After one year through five years	603	618
After five years through ten years	18,135	18,731
After ten years	7,904	8,121
Investment securities not due at a single maturity date:		
Government-sponsored mortgage-backed securities	71,640	72,163
	$ 98,282	$ 99,633

Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment securities with amortized costs totaling $59,768,000 and $62,914,000 and estimated fair values totaling $60,316,000 and $62,483,000 March 31, 2016 and December 31, 2015, respectively, were pledged to secure deposits and repurchase agreements.

4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Outstanding loans are summarized below, in thousands:

	March 31, 2016	December 31, 2015
Commercial	$37,346	$37,084
Agricultural	38,730	39,856
Real estate - residential	24,750	25,474
Real estate – commercial	201,593	192,095
Real estate – construction and land development	15,758	16,188
Equity lines of credit	38,509	38,327
Auto	49,173	48,365
Other	3,288	3,582
	409,147	400,971
Deferred loan costs, net	1,964	1,940
Allowance for loan losses	(6,198)	(6,078)
	$404,913	$396,833

Changes in the allowance for loan losses, in thousands, were as follows:

	March 31, 2016	December 31, 2015
Balance, beginning of year	$6,078	$ 5,451
Provision charged to operations	200	1,100
Losses charged to allowance	(220)	(827)
Recoveries	140	354
Balance, end of year	$6,198	$ 6,078

The recorded investment in impaired loans totaled $6,506,000 and $6,461,000 at March 31, 2016 and December 31, 2015, respectively. The Company had specific allowances for loan losses of $855,000 on impaired loans of $2,842,000 at March 31, 2016 as compared to specific allowances for loan losses of $751,000 on impaired loans of $2,346,000 at December 31, 2015. The balance of impaired loans in which no specific reserves were required totaled $3,664,000 and $4,115,000 at March 31, 2016 and December 31, 2015, respectively. The average recorded investment in impaired loans for the three months ended March 31, 2016 and March 31, 2015 was $6,240,000 and $7,952,000, respectively. The Company recognized $29,000 and $30,000 in interest income for impaired loans during the three months ended March 31, 2016 and 2015, respectively. No interest was recognized on nonaccrual loans accounted for on a cash basis during the three months ended March 31, 2016 and 2015.

Included in impaired loans are troubled debt restructurings. A troubled debt restructuring is a formal restructure of a loan where the Company for economic or legal reasons related to the borrower’s financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms to include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company’s internal underwriting policy.

The carrying value of troubled debt restructurings at March 31, 2016 and December 31, 2015 was $4,595,000 and $4,661,000, respectively. The Company has allocated $392,000 and $311,000 of specific reserves on loans to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2016 and December 31, 2015, respectively. The Company has not committed to lend additional amounts on loans classified as troubled debt restructurings at March 31, 2016 and December 31, 2015.

There were no troubled debt restructurings that occurred during the three months ending March 31, 2016 or March 31, 2015.

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the three months ended March 31, 2016 and 2015, respectively.

At March 31, 2016 and December 31, 2015, nonaccrual loans totaled $4,602,000 and $4,546,000, respectively. Interest foregone on nonaccrual loans totaled $75,000 and $118,000 for the three months ended March 31, 2016 and 2015, respectively. There were no loans past due 90 days or more and on accrual status at March 31, 2016 and December 31, 2015.

Salaries and employee benefits totaling $373,000 and $317,000 have been deferred as loan origination costs during the three months ended March 31, 2016 and 2015, respectively.

The Company assigns a risk rating to all loans, with the exception of automobile and other loans and periodically, but not less than annually, performs detailed reviews of all such loans over $100,000 to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company’s regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan.

The risk ratings can be grouped into five major categories, defined as follows:

Pass – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Watch – A Watch loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company’s credit position at some future date. Watch loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectible and charged off immediately.

The following table shows the loan portfolio allocated by management's internal risk ratings at the dates indicated, in thousands:

March 31, 2016

Grade:	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade						
Pass	$36,073	$ 38,411	$ 24,305	$ 195,684	$ 14,657	$38,204	$347,334
Watch	826	269	345	1,844	245	-	3,529
Substandard	447	50	100	4,065	856	305	5,823
Doubtful	-	-	-	-	-	-	-
Total	$37,346	$ 38,730	$ 24,750	$ 201,593	$ 15,758	$38,509	$356,686

December 31, 2015

Grade:	Commercial	Agricultural	Real Estate-Residential	Real Estate-Commercial	Real Estate-Construction	Equity LOC	Total
	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade						
Pass	$35,508	$ 39,426	$ 25,220	$ 185,739	$ 15,048	$37,983	$338,924
Watch	883	387	149	2,442	247	-	4,108
Substandard	693	43	105	3,914	893	344	5,992
Doubtful	-	-	-	-	-	-	-
Total	$37,084	$ 39,856	$ 25,474	$ 192,095	$ 16,188	$38,327	$349,024

	Consumer Credit Exposure Credit Risk Profile Based on Payment Activity March 31, 2016			**Consumer Credit Exposure Credit Risk Profile Based on Payment Activity December 31, 2015**		
	Auto	Other	Total	Auto	Other	Total
Grade:						
Performing	$49,112	$3,288	$52,400	$48,300	$3,582	$51,882
Non-performing	61	-	61	65	-	65
Total	$49,173	$3,288	$52,461	$48,365	$3,582	$51,947

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The following tables show the allocation of the allowance for loan losses at the dates indicated, in thousands:

Three months ended 3/31/16:	Commercial	Agricultural	Real Estate- Residential	Real Estate- Commercial	Real Estate- Construction	Equity LOC	Auto	Other	Total
Allowance for Loan Losses									
Beginning balance	$ 639	$ 294	$ 341	$ 2,525	$ 874	$ 528	$ 784	$ 93	$ 6,078
Charge-offs	(73)	-	-	-	-	(24)	(105)	(18)	(220)
Recoveries	11	-	35	-	29	-	57	8	140
Provision	60	17	(58)	237	(103)	20	27	-	200
Ending balance	$ 637	$ 311							